

This Is What the Start of a Recovery Looks Like

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Article:

Bit by bit, the economy is moving along on the road to recovery. It's a bumpy ride. Often it's one step back for every two steps forward. But that's a lot better than a year ago.

One of the steps forward came in the form of recent data on real (inflation-adjusted) Gross Domestic Product, which is the broadest measure of economic activity. Real GDP grew at a seasonally adjusted annual rate of 2.2 percent in the third quarter of 2009. That was the first growth in four quarters.

To be sure, 2.2 percent growth isn't huge. The economy has averaged better than 3 percent during the postwar period. But after the recession we had, we'll take it.

To some degree, we can thank the government's fiscal stimulus (whose effects will continue through mid-2010). Support for the stimulus among economists isn't universal, but it's revealing that the conservative American Enterprise Institute's 2010 economic outlook claims that the stimulus and rebuilding of inventories (which is partly a result of the stimulus) caused the economy to grow by a 3 percent annual rate in the second half of 2009 instead of shrinking by 1 percent.

Another good sign comes from the Institute for Supply Management's closely watched manufacturing index, which has proven to be a good indicator of where the economy is going. It declined steadily as we approached the Great Recession but has been rising consistently since then. In December it reached its highest level since early 2006. The ISM's non-manufacturing index is hovering around 50, which means things are holding steady in that sector. The Federal Reserve Board's index of industrial production started rising last fall for the first time since the recession began. The average work week for manufacturing workers is up as well.

Total retail sales are still below where they were at the start of the recession, but as of November, they had risen 4.6 percent in 2009. Automobile sales were up nearly 8 percent in 2009.

One of the most closely watched employment measures is the number of initial claims for unemployment insurance. Since rising above 670,000 per week in early 2009, this leading indicator has fallen steadily and in early January was about 430,000. It's still high but is moving in the right direction.

Even the increase in oil prices is good news, sort of. After falling to just over \$30 per barrel in late 2008, prices are back up to \$80. A rise in oil prices isn't normally what we think of as good news, but it is from the perspective of gauging the end of the recession. Commodities traders are bullish on oil because they see growth in the U.S. economy in 2010. The markets could be wrong, but traders are betting real money on this, and my guess is that they'll be proven right.

But not all the news is good. The national unemployment rate is still a disturbingly high 10 percent and is unlikely to fall very far very soon. The work week for all private-sector workers, which is typically a leading indicator of the end of the recession, has yet to show any upward momentum.

Often, bad news is mixed in with good. It was good news when the government announced that seasonally adjusted payroll employment rose in November. The growth was small, only 4,000 jobs, but it was the first increase since late 2007. Unfortunately, December employment fell by 85,000. That's a decline compared to the huge drops of a year ago, but it's still a decline.

And even November's employment gain is bad news in the grand scheme of things. The economy needs to generate about 100,000 new jobs every month just to keep up with the growth of the labor force. That's one reason why unemployment rates tend to stay high until well after a recession ends. In the early stages of a recovery, it's not uncommon for the economy to add jobs but see the unemployment rate rise.

The slow decline of the unemployment rate will be exacerbated by a less-than vibrant recovery. Typically, the economy grows especially fast in the first few quarters after a recession ends, as pent-up demand rushes back into the market. But we didn't see strong growth in late 2009, nor are forecasters predicting it for 2010. A lethargic recovery is unlikely to spur large-scale rehiring.

Closer to home, there are still no signs of improvement in retail sales in furniture and home furnishings. As of November they were down 6.8 percent for 2009. This was after drops of 13.3 percent in 2008 and 2.9 percent in 2007.

Things look better on the employment side, possibly because unit sales have picked up amid discounting and soft prices. Employment by home furnishings retailers grew throughout the fall, even after adjusting for the holiday buying season. December's figure was down slightly, but may ultimately be revised upward.

No such luck in furniture manufacturing, however, where seasonally adjusted employment rose in November for the first time since early 2007, but then fell by even more in December.

Even so, amid the bankruptcies and consolidations and job losses in the furniture industry, there are a few good signs. Home-foreclosure filings fell for four straight months last fall, the number of housing starts has stopped falling, and home prices are showing signs of recovering.

The big news from December's Showtime fabric show in High Point, N.C., was the optimism among exhibitors and attendees. Traffic was good and there were quite a few new products shown, which could indicate a turnaround in upholstery in 2010.

All in all, this is what the start of an economic expansion looks like. It's not always pretty, but there is good reason to be hopeful.